9293

The Arc Baton Rouge
Baton Rouge, Louisiana
June 30, 2010

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November 29, 2010

Independent Auditor's Report

The Officers and Board of Directors
The Arc Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the accompanying statements of financial position of

The Arc Baton Rouge
(A Non-Profit Organization)
Baton Rouge, Louisiana

as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc Baton Rouge as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 29, 2010, on our consideration of The Arc Baton Rouge's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.

The Arc Baton Rouge
Statements of Financial Position
June 30, 2010 and 2009

Assets

	2010	2009
Assets		
Cash and cash equivalents	$412,631	$577,498
Investments	123,634	124,729
Receivables		
Trade	137,548	76,025
State contracts	70,544	150,086
Federal contracts	270,233	262,893
Notes receivable		29,811
Inventory	15,520	16,649
Property, Plant and Equipment, Net	965,990	1,002,986
Deposits	7,243	6,243
Total assets	2,003,343	2,246,920

Liabilities and Net Assets

	2010	2009
Liabilities		
Accounts payable	83,110	103,530
Accrued expenses	256,732	258,357
Line of credit	37,626	
Deferred income	55,648	
Accrued pension cost	1,090,214	972,206
Total liabilities	1,523,330	1,334,093
Net Assets		
Unrestricted	480,013	912,827
Total liabilities and net assets	2,003,343	2,246,920

The accompanying notes are an integral part of these financial statements.

The Arc Baton Rouge
Statements of Activities
Years Ended June 30, 2010 and 2009

Unrestricted Net Assets	2010	2009
Operating:		
Unrestricted Revenue and Gains		
Federal and State contracts	$4,921,224	$5,094,552
Federal awards	213,191	148,582
Program sales and service fees	370,028	380,162
Capital Area United Way	153,697	143,424
Contributions	91,010	171,242
Investment return	711	(2,784)
Public grants and other income	393,825	304,877
Total unrestricted revenue and gains	6,143,686	6,240,055
Expenses		
Program services	6,087,792	5,890,325
General and administrative	417,955	533,480
Fund raising	31,883	35,253
Total expenses	6,537,630	6,459,058
Increase (Decrease) in Net Assets From Operating Activities	(393,944)	(219,003)
Non-Operating:		
Pension-related changes other than net periodic pension costs	(38,870)	(687,175)
Increase (Decrease) in Net Assets	(432,814)	(906,178)
Net Assets, beginning of year	912,827	1,819,005
Net Assets, end of year	480,013	912,827

The accompanying notes are an integral part of these financial statements.

The Arc Baton Rouge
Statement of Functional Expenses
Year Ended June 30, 2010

	Metro Enterprises Business	Metro Enterprises Rehabil-itation	Early Intervention Programs	Respite Care Programs	Louisiana Career Developmen Center	Vocational Services Placement	Community Services	Community Life	Total Program Services	Manage-ment General and Other	Fund Raising	2010 Totals
Compensation and Related Benefits												
Salaries	$340,022	$548,620	$581,354	$1,147,447	$167,216	$112,031	$69,703	$1,101,067	$4,067,460	$207,970	$20,000	$4,295,430
Payroll taxes	26,563	40,404	43,149	85,830	11,806	7,715	5,236	84,227	304,930	10,611		315,541
Employee health		55,856	33,836	75,164	15,202	10,755	4,955	64,429	260,197	20,661		280,858
Retirement plan	5,592	37,091	34,959	34,515	9,963	7,485	5,731	22,294	157,630	45,594	—	203,224
	372,177	681,971	693,298	1,342,956	204,187	137,986	85,625	1,272,017	4,790,217	284,836	20,000	5,095,053
Contractual services	49,415	21							49,436			49,436
Professional services		20,228	221,342	4,590	3,390	2,254	11,481	3,045	266,330	24,086		290,416
Supplies	2,678	10,428	66,003	6,397	2,228	834	4,593	3,684	96,845	8,904		105,749
Utilities and telephone	16,043	40,317	36,104	13,852	20,131	7,367	874	6,392	141,080	14,493		155,573
Maintenance and equipment rental	20,116	18,217	14,794	7,326	3,086	1,272		3,204	68,015	12,906		80,921
Membership dues		153	153	76	38	38	38	76	572	25,383		25,955
Travel and transportation	258	1,816	31,505	24,765	5,970	1,907	2,187	25,502	93,910	17,454		111,364
Office expenses	341	465	582	799	118	421	2,713	681	6,120	7,527		13,647
General insurance		45,025	11,169	10,951	10,038	2,738		3,615	83,536	11,945		95,481
Worker's compensation	6,336	9,610	12,425	35,216	1,923	1,214	778	33,755	101,257	765		102,022
Vehicle expenses	13,246	12,304	1,233	2,467				5	29,255			29,255
Program transportation		28,700							28,700			28,700
Interest expense		374	11	462					847			847
Other expenses	1,799	19,067	3,460	5,935	1,177	470	1,247	2,383	35,538	9,656	11,883	57,077
Assistance to individuals					66		201,615		201,681			201,681
Depreciation	—	47,417	12,010	7,670	23,409	1,242	—	2,705	94,453	—	—	94,453
Total functional expenses	482,409	936,113	1,104,089	1,463,462	275,761	157,743	311,151	1,357,064	6,087,792	417,955	31,883	6,537,630

The accompanying notes are an integral part of these financial statements.

The Arc Baton Rouge
Statement of Functional Expenses
Year Ended June 30, 2009

	Metro Enterprises Business	Metro Enterprises Rehabil-itation	Early Intervention Programs	Respite Care Programs	Louisiana Career Development Center	Vocational Services Placement	Community Services	Community Life	Total Program Services	Manage-ment General and Other	Fund Raising	2009 Totals
Compensation and Related Benefits												
Salaries	$301,058	$516,279	$528,365	$1,203,717	$207,780	$135,703	$72,636	$1,016,763	$3,982,301	$236,659	$20,000	$4,238,960
Payroll taxes and insurance	23,748	37,869	38,658	91,630	15,284	9,364	5,671	78,894	301,118	22,161		323,279
Employee health	14	63,843	29,484	72,609	15,095	14,298	273	50,700	246,316	19,393		265,709
Retirement and life plans	664	26,226	22,576	6,499	7,654	6,230	2,114	3,950	75,913	46,590	—	122,503
	325,484	644,217	619,083	1,374,455	245,813	165,595	80,694	1,150,307	4,605,648	324,803	20,000	4,950,451
Contractual services	37,027	368	490	1,042	123	92	92	674	39,908			39,908
Professional services	472	13,392	203,398	1,145	18,090	100	169	49,269	286,035	35,082		321,117
Supplies	4,306	6,909	57,394	8,987	2,921	1,035	7,301	4,333	93,186	8,466		101,652
Utilities	16,663	41,796	34,457	15,138	19,989	8,990		5,739	142,772	16,293		159,065
Maintenance and equipment rental	12,335	15,858	17,160	8,454	5,188	2,289	146	3,202	64,632	11,460		76,092
Membership dues		228	387	63	143	63	92	38	1,014	23,205		24,219
Travel, conferences and meetings	417	2,994	24,303	24,934	20,128	2,940	1,190	24,182	101,088	12,207		113,295
Office expenses	1,251	36	1,347	651	634	359	2,773	229	7,280	8,016		15,296
General insurance			227						227	80,522		80,749
Worker's compensation	5,370	9,090	11,171	33,142	2,756	1,540	881	26,453	90,403	(5,389)		85,014
Vehicle expenses	11,909	11,578	87	1,983					25,557			25,557
Program transportation		19,826							19,826			19,826
Interest expense				11					11	52		63
Other expenses	922	6,249	3,182	3,093	1,627	939	3,357	2,238	21,607	18,763	15,253	55,623
Assistance to individuals			155	20	28		298,364	1,500	300,067			300,067
Depreciation	20,872	27,388	9,798	3,993	26,047	2,966	—	—	91,064	—	—	91,064
Total functional expenses	437,028	799,929	982,639	1,477,111	343,487	186,908	395,059	1,268,164	5,890,325	533,480	35,253	6,459,058

The accompanying notes are an integral part of these financial statements.

The Arc Baton Rouge
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Increase (decrease) in net assets	($432,814)	($906,178)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	94,454	91,064
Loss on disposal/sale of fixed asset	2	700
Net unrealized (gain) loss on investments	1,316	5,733
Write-off of notes receivable	14,026	
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	10,679	332,901
Inventory	1,129	3,063
Deposits	(1,000)	18,503
Increase (decrease) in:		
Accounts payable	(20,420)	(3,395)
Accrued expenses	(1,625)	(15,391)
Deferred income	55,648	(7,551)
Accrued pension cost	118,008	684,563
Net cash provided (used) by operating activities	(160,597)	204,012
Cash Flows From Investing Activities		
Purchase of property and equipment	(57,460)	(68,111)
Purchase of investments	(221)	(50,376)
Collections on notes receivable	15,785	2,928
Net cash used by investing activities	(41,896)	(115,559)
Cash Flows From Financing Activities		
Increase in line of credit	37,626	
Net cash provided by financing activities	37,626	
Net Increase (Decrease) in Cash and Cash Equivalents	(164,867)	88,453
Cash and Cash Equivalents, beginning of year	577,498	489,045
Cash and Cash Equivalents, end of year	412,631	577,498

The accompanying notes are an integral part of these financial statements.

Note 1-Nature of Organization

The Arc Baton Rouge (Organization) is a not-for-profit organization which promotes, develops, monitors, supports and directly provides services to improve the well being of people with disabilities and their families from East Baton Rouge and surrounding parishes. The Arc Baton Rouge has various funding resources that includes the Capital Area United Way agency and federal and state contracts and grants.

The Arc Baton Rouge offers the following service programs:

Metro Enterprises: *(Metro Business and Metro Habilitation)* Day program services offer opportunities for people (age 22 and over) with mental retardation or other developmental disabilities to become more independent, integral and productive members of society. Services include work adjustment training, community life enrichment and paid work experience.

The Arc Baton Rouge Children's Services: (The Arc Early Head Start and Child Care Center and Early Intervention) Promotes the rights and full inclusion of children with special needs and their families. Together with community partners, the program provides services, supports and advocacy that inspire our community and individuals. The program provides child development services through The Arc Early Head Start and Child Care Center. Early Intervention services are provided for children with disabilities and families in home and community settings. The program also supports inclusion through training and technical assistance projects to support Early Childhood teachers and child care providers to include children with disabilities in natural settings. The Arc Children's Services also provide services to families of children with disabilities through parent support and training.

Respite Care Programs: Provides relief for the primary care providers of children and adults with developmental disabilities, from the everyday care, whether it's physical assistance, supervision or accompanying on outings. The support may occur in the individual's home, in the community or in the Respite Center. It may occur regularly or the family may only request assistance in an emergency situation. The primary objective of Respite is to help prevent or delay institutionalization of individuals with developmental disabilities.

Louisiana Career Development Center: Provides individuals who are deaf or deaf/blind with comprehensive assessments, travel training, work ethics training (including an internship), individual job placement in area businesses, and follow-up support to employees and employers.

Baton Rouge Vocational Services: Develops and creates employment opportunities for individuals (age 16 and older) with disabilities through partnership with LRS. Provides vocational assessments, job readiness skills, job placement and training service and follow-up services.

Community Services: Provides disability education to the general public, service referral, advocacy, crisis assistance, and coordination of volunteer efforts, as well as recreational and leisure activities. Works with other established agencies to provide inclusive recreational opportunities for persons with developmental disabilities, coordinates an array of recreational and special events. An adaptive swim program with individual therapy and lessons is offered every summer.

Community Life: Provides supported living services to adults with developmental disabilities who require assistance or support to live in their own homes in the community. The goal of Community Life is to provide opportunities and support for individuals in their quest to live as independently as possible and to be successfully included in the community.

Note 2-Significant Accounting Policies

A. Basis of Accounting

The financial statements are presented using the accrual basis of accounting.

B. Basis of Presentation

The Organization has adopted the Financial Statements of Not-for-Profit Organizations Topic under the FASB - Accounting Standards Codification. Under this topic, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include those net assets whose use by the Organization is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. Temporarily restricted net assets are those assets whose use by the Organization has been limited by donors to (a) later periods of time or other specific dates, or (b) to specified purposes. Permanently restricted net assets are those net assets received with donor-imposed restrictions limiting the Organization's use of the asset. The Organization does not have any temporarily or permanently restricted net assets.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

The Organization considers all funds on hand and with financial institutions with maturities of three months or less to be cash equivalents.

E. Receivables

The Organization considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

F. Inventory

Inventory is stated at the lower of cost or market using the first-in first-out method.

G. Investments

Investments in equity securities with readily determinable fair values and all debt securities are carried at fair value. Fair value is determined using quoted market prices (where available) or, if not available, estimated fair values based on quoted market prices of financial instruments with similar characteristics. All other investments are carried at the lower of cost or market. Recognized gains and losses on investments are reflected in the statement of activities. Dividends and interest income are recorded during the period earned. Unrealized gains and losses are included in the changes in net assets. Investment income is reported as increases in unrestricted net assets in the reporting period in which the income and gains are recognized.

Note 2-Significant Accounting Policies (Continued)

G. Investments (Continued)

The Organization adopted the Fair Value Measurements and Disclosures Topic under the FASB - Accounting Standards Codification. Under this topic, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. The topic establishes a hierarchical framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Assets measured and reported at fair value are classified and disclosed in one of the following categories:

Level I: Quoted prices (unadjusted) in active markets which are accessible at the measurement date.

Level II: Prices based on observable inputs corroborated by market data but no quoted active markets.

Level III: Prices based on unobservable inputs, including situations where there is little, if any, market activity for the assets or liabilities. The inputs used in the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investments.

H. Property and Equipment

Property and equipment are recorded at cost. Property and equipment donated for operations are recorded as additions to net assets at fair value at the date of receipt and depreciated using the straight-line method of depreciation over the useful lives of the assets, which range from 5-29 years.

Expenditures for major additions of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Note 2-Significant Accounting Policies (Continued)

I. Support

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period as received are reported as unrestricted support.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

J. Contract Receivables

The Organization depends significantly on grant contract reimbursements to carry out its program activities. This revenue is disclosed as program revenue on the statements of activities.

Grant revenue is recorded as related expenses are incurred, and reimbursement requests are submitted to the grantor agency.

K. Retirement Plan

The retirement plan is a defined benefit plan which covers substantially all full-time salaried employees.

L. Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Accordingly, no provision for income taxes on related income has been included in the financial statements.

In Management's judgment, The Arc Baton Rouge does not have any tax positions that would result in a loss contingency considering the facts, circumstances, and information available at the reporting date.

With few exceptions, the statute of limitations for the examination of The Arc Baton Rouge's income tax returns is generally three years from the due date of the tax returns including extensions. The tax Form 990 is prepared for the year ended June 30th. The tax years open for assessment are the years ending on or after June 30, 2006.

Note 2-Significant Accounting Policies (Continued)

M. Functional Expenses

The Organization allocates functional expenses primarily by specific identification of program expenses which include salaries of personnel assigned to specific programs. However, certain administrative salaries and related expenses and other general expenses are allocated using percentages which are adjusted annually. These percentages coincide with grant agreements and budgets.

N. Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform with the current year's financial statement presentation. The reclassifications had no effect on net assets or the increase in net assets.

Note 3-Investments

Investments in money market funds and certificates of deposits are stated at cost and equity investments are stated at market value as quoted by national publications. At June 30, 2010 and 2009, investments are as follows:

	2010	2009
Certificate of deposit	$50,000	$50,000
Money Market Funds	63,559	63,337
Equity investments - corporate stock	10,075	11,392
	123,634	124,729

Investment income from cash equivalents and investments is comprised of the following for the years ended June 30, 2010 and 2009:

	2010	2009
Unrestricted		
Dividends and interest	$371	$2,949
Net unrealized gains (loss)	(1,316)	(5,733)
Total (loss)	(945)	(2,784)

Note 4-Note Receivable

	2010	2009
The Organization sold the facilities (on Wayne Drive) to Open Faith Ministries for $57,000 in 1995 and financed the sale. Terms are monthly installments of $500 and include 9% interest per annum maturing January 2016. The note is secured by the land and building. In April 2010, Open Faith Ministries reached a settlement with The Arc Baton Rouge making a one-time payment of $13,500. The remaining balance of $14,026 was written off.	-	$29,811

Note 5-Property and Equipment

A summary of property and equipment at June 30, 2010 and 2009, is as follows:

	2010	2009
Buildings and improvements	$2,230,309	$2,222,909
Furniture and equipment	535,363	542,632
Vehicles	174,320	125,210
	2,939,992	2,890,751
Less depreciation to date	2,183,999	2,097,762
	755,993	792,989
Land	209,997	209,997
Property and equipment, net	965,990	1,002,986

Note 6-Line of Credit

The Arc Baton Rouge has a line of credit with Capital One Bank, N.A. for $200,000, due on demand, of which $37,626 was drawn at June 30, 2010. The interest rate at June 30 2010 was the prime rate of 3.25%. The line is secured by the building on Kelwood Avenue. The line of credit had no amount drawn at December 31, 2009.

Note 7-Pension Plan

The Organization has a Defined Benefit pension plan which covers substantially all of its employees who meet eligibility requirements. Benefits under the plan are generally based on the employee's compensation during the highest five consecutive calendar years' salary during the last ten completed calendar years of service before retirement. The pension plan is funded in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

The following table presents the changes in benefit obligations, changes in Plan assets, and the composition of accrued benefit costs in the statements of financial position for the years ended June 30, 2010 and 2009.

	Pension Benefits	
	2010	2009
Changes in Benefit Obligations		
Benefit obligations at beginning of year	$3,679,766	$3,534,393
Service cost	158,666	143,938
Interest cost	232,361	226,539
Change due to assumption changes	285,794	2,213
Actuarial (gain) loss	(79,248)	119,892
Benefits paid	(53,476)	(332,112)
Expense charges	(29,333)	(15,097)
Benefit obligations at end of year	4,194,530	3,679,766

(Continued)

Note 7-Pension Plan (Continued)

	Pension Benefits	
	2010	**2009**
(Continued)		
Changes in Plan Assets		
Fair value of plan assets at beginning of year	$2,707,560	$3,246,750
Actual return on plan assets	361,065	(311,981)
Employer contributions	118,500	120,000
Benefits paid	(82,809)	(347,209)
Fair value of plan assets at end of year	3,104,316	2,707,560
Funded status/accrued benefit costs	(1,090,214)	(972,206)

The Organization adopted the recognition of the funded status provisions of the Employer's Accounting for Defined Benefit Pension and Other Post-retirement Plans Topic under the FASB - Accounting Standards Codification. This topic requires companies to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements.

Pension related changes other than net periodic cost under the Employer's Accounting for Defined Benefit Pension and Other Post-retirement Plans Topic of the FASB - Accounting Standards Codification are as follows:

	Pension Benefits	
	2010	**2009**
Prior service credit (cost)	($297,244)	($371,721)
Net actuarial (gain) loss	1,373,955	1,415,094
Transition obligation or asset	(21,294)	(26,826)
Total	1,055,417	1,016,547

Items not yet recognized as a component of net periodic benefit costs:

Unrecognized prior service credit (cost)	(74,477)	(74,477)
Unrecognized net actuarial loss	98,200	128,638
Transition obligation or asset	(5,532)	(5,532)
Total	18,191	48,629

The accumulated benefit obligation for the pension plan was approximately $3.0 million as of June 30, 2010 and 2009, respectively.

The weighted average assumptions used to determine benefit obligations and net benefit costs for the years ended 2010 and 2009 are as follows.

Note 7-Pension Plan (Continued)

	Pension Benefits 2010	Pension Benefits 2009
Benefit Obligations		
Discount rate	5.50%	6.25%
Expected long-term rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	4.50%	4.50%
Net Benefit Costs		
Discount rate	5.50%	6.25%
Expected long-term, rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	4.50%	4.50%

The Expected Long-Term Rate of Return on Plan Assets assumption of 7.50% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27-Selection of Economic Assumptions for Measuring Pension Obligations. Based on The ARC Baton Rouge's investment policy for the pension plan in effect as of the beginning of fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical thirty year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 6.74% to 8.93%. A rate within the best estimate range of 7.50% was selected.

The components of net periodic benefit costs for the years ended June 30, 2010 and 2009 are as follows (in thousands):

	Pension Benefits 2010	Pension Benefits 2009
Service cost	$158,666	$143,938
Interest cost	232,361	226,539
Expected return on plan assets	(204,406)	(234,611)
Amortization of unrecognized transitional obligation or (asset)	(5,532)	(5,532)
Amount of recognized actuarial (gains) or losses	91,026	61,531
Amount of prior service cost recognized	(74,477)	(74,477)
Net periodic benefit costs	197,638	117,388

The Organization expects to contribute approximately $105,000 to the plan in 2011. Benefits expected to be paid during the ensuing five years and thereafter, are approximately as follows:

Fiscal Year Beginning	Pension Benefits
July 1, 2010	$208,000
July 1, 2011	83,000
July 1, 2012	48,000
July 1, 2013	48,000
July 1, 2014	507,000
July 1, 2015 - 2019	2,269,000

Note 7-Pension Plan (Continued)

Plan Assets by Category

	As of June 30, 2010		As of June 30, 2009	
	Amount	**Percent**	**Amount**	**Percent**
Equity	$1,136,345	36.60	$1,090,652	40.28
Fixed Income	1,830,540	58.97	1,518,445	56.08
General Account	137,431	4.43	98,463	3.64
Total	3,104,316	100.00	2,707,560	100.00

The Organization's investment strategy is a long-term investment mix of forty percent common stocks and sixty percent fixed income investments which include bonds and cash equivalents. The permitted range by investment category is 25% - 75% for common stock and bond funds and up to 40% for cash equivalent funds.

Note 8-Pension Plan - Defined Contribution

The Organization has a defined contribution plan subject to Section 403(b) of the Internal Revenue Code. The plan covers all of its employees who meet eligibility requirements. Employees may contribute 100% of eligible compensation, not to exceed federal limits.

Note 9-Concentration of Risk

Credit receivables have significant concentrations of credit risk in the governmental sector in the Baton Rouge, Louisiana area. At June 30, 2010 and 2009, the portion of these receivables related to this sector was approximately 71% and 84%, respectively.

At various times during the year, interest bearing accounts on deposit with one banking institution exceeded the $250,000 insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the financial institution on a regular basis, along with their balances in cash and cash equivalents to minimize this potential risk.

Note 10-Economic Dependency

The Organization receives a majority of its revenue from funds provided through programs administered by the State of Louisiana and United Way. The program amounts are appropriated each year by the Federal and State governments and the United Way Agency. If significant budget cuts are enacted at the Federal and/or State level, the amount of the funds the Organization receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the Organization will receive in the next fiscal year.

Note 11-Contingencies - Federal and State Programs

The Organization participates in Federal and State programs, which are governed by various rules and regulations. Costs charged to the grant programs are subject to audit and adjustment by the grantor agency; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received and the collectibility of any related receivable at year end may be impaired. In management's opinion, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies. Audits of prior years have not resulted in any significant disallowed costs or refunds. Any costs that would be disallowed would be recognized in the period agreed upon by the grantor agency and The Arc Baton Rouge.

Note 12-Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at June 30, 2010 comprise the following:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Un-observable Inputs (Level 3)	Total
June 30, 2010				
Money Market Funds	$63,558	–	–	$63,558
Equity Investments				
Corporate stocks	10,075	–	–	10,075
	73,633	–	–	73,633
June 30, 2009				
Money Market Funds	63,337	–	–	63,337
Equity Investments				
Corporate stocks	11,392	–	–	11,392
	74,729	–	–	74,729

Generally, for all investments and assets held in trust, fair value is determined by reference to quoted market prices and other relevant information generated by market transactions. For certain investments, fair value is determined by the present value of future cash inflows as determined by a third-party appraisal.

Note 12-Subsequent Events

The Organization evaluated all subsequent events through November 29, 2010, the date the financial statements were available to be issued.

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

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November 29, 2010

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
The Arc Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the financial statements of The Arc Baton Rouge (A Non-Profit Organization) Baton Rouge, Louisiana, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Arc Baton Rouge's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc Baton Rouge's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Arc Baton Rouge's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc Baton Rouge's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, federal awarding agencies, pass-through entities, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.

The Arc Baton Rouge
Summary of Current Year Findings
Year Ended June 30, 2010

Findings - Financial Statement Audit

None.

The Arc Baton Rouge
Summary of Prior Year Findings
Year Ended June 30, 2009

Findings - Financial Statement Audit

None.